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EXECUTIVE SECRETARY

October 22, 1999

David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Via Hand Delivery

RE: Petition for Arbitration by ITC^DeltaCom Communications, Inc. with BellSouth
Telecommunications, Inc., Pursuant to the Telecommunications Act of 1996; Docket No.
99-00430

Dear Mr. Waddell:

Enclosed for filing are the original and 13 copies of the revised Direct Testimony of Thomas Hyde, Christopher Rozycki, and Don Wood. This testimony has been revised in response to a request from the Staff to include additional references to the specific issues being addressed in the testimony.

The exhibits are the same as originally filed and, therefore, are not resubmitted.

Copies of the enclosed are being provided to counsel of record.

Sincerely,



H. LaDon Baltimore
LDB/dcg
Enclosures
cc: Guy Hicks, Esq.

FILE

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

October 22, 1999

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EXECUTIVE SECRETARY

IN RE:

**PETITION FOR ARBITRATION BY
ITC^DELTACOM COMMUNICATIONS,
INC. WITH BELLSOUTH
TELECOMMUNICATIONS, INC.,
PURSUANT TO THE
TELECOMMUNICATIONS ACT OF 1996**

DOCKET NO. 99-00430

**DIRECT TESTIMONY OF DON J. WOOD
ON BEHALF OF ITC^DELTACOM COMMUNICATIONS, INC.¹**

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¹ Identical to direct testimony filed October 15, 1999 with the exception that issues have been inserted.

FILE

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Don J. Wood. I am employed as a Regional Director of Klick, Kent & Allen,
3 Inc. ("KKA"), an economic and financial consulting firm. My business address is 914
4 Stream Valley Trail, Alpharetta, Georgia, 30022. I provide economic and regulatory
5 analysis of the telecommunications, cable, and related "convergence" industries, with an
6 emphasis on economic policy, development of competitive markets, and cost of service
7 issues.

8 Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.

9 A. I received a B.B.A. in Finance with distinction from Emory University and an M.B.A. with
10 concentrations in Finance and Microeconomics from the College of William and Mary.
11 My telecommunications experience includes employment at both a Regional Bell
12 Operating Company ("RBOC") and an Interexchange Carrier ("IXC").

13 I was employed in the local exchange industry by BellSouth Services, Inc. in its
14 Pricing and Economics, Service Cost Division. My responsibilities included performing
15 cost analyses of new and existing services, preparing documentation for filings with state
16 regulatory commissions and the Federal Communications Commission ("FCC"),
17 developing methodology and computer models for use by other analysts, and performing
18 special assembly cost studies. I was also employed in the interexchange industry by MCI
19 Telecommunications Corporation, as Manager of Regulatory Analysis for the Southern
20 Division. In this capacity I was responsible for the development and implementation of
21 regulatory policy for operations in the southern U. S. I then served as a Manager in the

1 Economic Analysis and Regulatory Affairs Organization, where I participated in the
2 development of regulatory policy for national issues.

3 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE STATE
4 REGULATORS?

5 A. Yes. I have testified on telecommunications issues before the regulatory commissions of
6 twenty-five states, Puerto Rico, and the District of Columbia. I also have presented
7 testimony regarding cost of service and competitive market issues in both state and federal
8 court and have presented comments to the FCC. I have presented testimony on
9 telecommunications issues to the Authority, and its predecessor, the Tennessee Public
10 Service Commission, on a number of occasions. A listing of my previous testimony is
11 attached as Exhibit DJW-1.

12 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

13 A. I have been asked by ITC^DeltaCom ("ITC^D") to address several issues relating to the
14 Interconnection Agreement that ITC^D is attempting to negotiate with BellSouth. In
15 particular, I have been asked to address economic and policy issues associated with
16 Operational Support Systems ("OSS"), collocation, rates for certain Unbundled Network
17 Elements ("UNEs"), and a number of miscellaneous issues.

18 Many of these issues were addressed in the Authority's Interim Order in Docket
19 No. 97-01262. I have reviewed the Authority's conclusions in that Interim Order and
20 have concluded if those findings are made permanent, the majority of the outstanding

1 issues related to OSS and UNE rates will be resolved. In the case of combinations of
2 UNEs (including but not limited to the provisioning and pricing of the extended loops
3 being requested by ITC^D), however, the Authority will need to reach conclusions on
4 issues not covered in the Interim Order.

5 This proceeding deals with many of the “nuts and bolts” that must be in place to
6 encourage – and ultimately to make possible -- competitive entry into the basic local
7 exchange markets in Tennessee.

8 Section I of my testimony provides the conceptual framework for developing and
9 implementing these essential “nuts and bolts.” I discuss the fundamental economic
10 principles that provide a guide to the Authority when evaluating the numerous issues that
11 are being presented to it in this proceeding. Section II addresses OSS issues in light of
12 these principles. Section III discusses certain collocation issues related to both rates and
13 terms and conditions. Section IV addresses the rates for certain UNEs. Section V covers
14 a series of miscellaneous, but important, issues.

15 **SECTION I: FUNDAMENTAL ECONOMIC PRINCIPLES THAT THE**
16 **AUTHORITY SHOULD APPLY WHEN EVALUATING THE PARTIES’**
17 **POSITIONS IN THIS PROCEEDING**

18 Q. PLEASE DESCRIBE THE ECONOMIC CONTEXT IN WHICH THIS PROCEEDING
19 IS BEING UNDERTAKEN.

20 A. The Federal Telecommunications Act of 1996 (“1996 Act”) holds out the promise of
21 fundamentally changing the way in which telecommunications services are provided to
22 consumers – particularly the creation of full-service providers that can offer local and

1 long-distance services in combination. In order for this to happen, customers must
2 perceive – and perceive correctly -- that it is as easy to change local carriers as it has
3 become for them to change long distance carriers.

4 Q. HOW DOES THIS MARKET REALITY AFFECT THE ISSUES BEFORE THE
5 AUTHORITY IN THIS PROCEEDING?

6 A. Given the strong customer focus on convenience, reliability, and cost, there are a number
7 of ways in which incumbent local exchange carriers (“ILECs”), such as BellSouth, can
8 create entry barriers. These barriers can delay and ultimately prevent the development of a
9 competitive local exchange market in Tennessee. In my view, there are five areas that are
10 critical to creation of an opportunity for widespread meaningful local competition to
11 develop:

- 12 • Carriers must easily and reliably be able to order network elements, and
13 combinations of those elements, including those that involve the local switching
14 UNE. The local switching network element is critical to fostering local
15 competition because it is where services are defined, minutes are recorded, and
16 customer requests are filled electronically.
- 17 • Network element prices must accurately track the manner in which an
18 efficient ILEC – using equipment, facilities, and capabilities that are currently
19 available – would incur its costs. Prices based on these costs, which are often
20 referred to as Total Element Long Run Incremental Costs (“TELRIC”) are
21 consistent with prices one observes, over the long run, in competitive markets.

1 • In order to develop appropriate prices for UNEs, it is critical that the cost
2 studies being relied upon by BellSouth to justify both recurring and non-recurring
3 charges be fully-available to the Directors, Staff and to the parties, in electronic
4 (functioning) format, for full review. Furthermore, these studies, and the
5 underlying input data, should be provided with sufficient time to permit the parties
6 to understand the network architecture, unit cost, and operating assumptions being
7 employed, in order to ensure that they properly reflect forward-looking principles
8 and are fully compliant with the applicable legal standards.

9 • Overstated non-recurring charges (“NRCs”) create substantial barriers to
10 local competition by making it more expensive and/or less convenient for end users
11 to choose a Competitive Local Exchange Carrier (“CLEC”) as his or her local
12 service provider. The competitive effect of NRCs as a barrier to entry makes it
13 critical that the Authority and the parties have the opportunity to carefully
14 scrutinize any claimed cost justification for such charges. As in the case of
15 recurring charges, cost studies supporting NRCs should be based on a forward-
16 looking environment in which electronic operational support systems are assumed
17 to be available and operating effectively (with minimal “fall-out” rates). This will
18 result in costs for provisioning and maintaining the network elements that are
19 consistent with a competitive market model.

20 • One-time costs that BellSouth may incur to implement the required OSS
21 should not be included in the recurring or non-recurring costs of individual UNEs
22 for two reasons. First, every carrier, whether ILEC or CLEC, will incur costs to

1 transition to the industry structure contemplated by the Act. As a result, there is
2 no rationale for permitting BellSouth, alone, to impose *its* “transition” costs on its
3 potential competitors. Second, BellSouth will enter the long distance market using
4 OSS that long distance carriers already have paid to implement. Thus, any
5 decision that permits BellSouth to shift its costs to CLECs will provide it with a
6 significant competitive advantage, and destroy the competitive balance envisioned
7 by the 1996 Act.

8 Achieving the conditions for widespread entry into local exchange markets – *i.e.*,
9 an environment in which customers can easily, reliably, and inexpensively change local
10 service providers – is a prerequisite to achieving the local competition envisioned by the
11 1996 Act.² To move its local customers to its long-distance services, once it is authorized
12 to provide inter-exchange services, BellSouth will rely upon highly efficient, software-
13 defined, electronic flow-through processes.

14 Q. WHAT IS THE AUTHORITY’S ROLE IN THIS PROCESS?

15 A. The Authority’s scrutiny in this proceeding is required to provide CLECs, such as ITC[^]D,
16 with comparable capabilities, *i.e.*, to offer local exchange services rapidly, reliably, and
17 over a wide service area. These capabilities are essential to creating a realistic opportunity
18 for the development of competitive telecommunications markets. The Authority must

² Public policy favors widespread entry. The 1996 Act is intended to bring the potential benefits of competition to as many customers as possible. While targeted local market entry is the most viable short-term entry strategy, local competition will never be robust while large numbers of customers remain effectively captive to the ILECs.

1 ensure that the recurring and non-recurring rates that it sets *and the terms and conditions*
2 *that it requires*, satisfy these standards. The costs of manual systems, excessive errors
3 (and the costs of correcting them), and collocation arrangements that fail to satisfy these
4 goals are *irrelevant* to determining the prices and terms and conditions that BellSouth
5 should be permitted to seek. It will not be possible to change a customer's choice of local
6 provider with sufficient speed and accuracy, at a reasonable price, unless that choice can
7 be automated. Furthermore, in order to meet the non-discrimination requirements of the
8 1996 Act, these choices must be met at a rate no slower than, and with an accuracy equal
9 to, the rate at which BellSouth will be able to move customers to its long distance
10 services. If OSS favor BellSouth as the full-service provider – *i.e.*, if customers can
11 quickly, inexpensively, and reliably select BellSouth to provide both local and long
12 distance, but cannot select a competing carrier such as ITC^D just as quickly,
13 inexpensively, and reliably, then meaningful competition simply cannot develop. Put
14 simply, if OSS favor BellSouth the Tennessee consumers of these services will be the
15 losers.

16 Q. PLEASE SUMMARIZE YOUR OPINION OF WHAT IS NECESSARY FOR
17 COMPETITION TO DEVELOP.

18 A. The evolution of broad-based local competition will depend on (1) the CLECs' abilities to
19 quickly and reliably order UNEs to serve customers, with the change in the customer's
20 local carrier accomplished through electronic, flow-through OSS that recognize a new
21 carrier of record, and (2) this Authority's efforts to ensure that prices and terms and

- 1 conditions reflect the appropriate fundamental economic principles and applicable legal
- 2 standards.

1 **SECTION II: THE IMPORTANCE OF EFFECTIVE AND EFFICIENT**
2 **OPERATIONAL SUPPORT SYSTEMS AND THE APPROPRIATE**
3 **MEANS OF COST RECOVERY**

4 **Issue 6(a): What charges, if any, should BellSouth be permitted to impose on ITC^**
5 **DeltaCom for BellSouth's OSS?**

6 Q. WHAT ARE THE OSS ISSUES THAT YOU ARE ADDRESSING IN THIS
7 PROCEEDING?

8 A. ITC^D's concerns with the negotiation of OSS charges center around the lack of
9 justification for BellSouth's proposed OSS-related NRCs, and the fact that the existing
10 OSS employed by BellSouth is not workable. I will address the rate issues in my
11 testimony. The problems with the operation of BellSouth's OSS are discussed by Mr.
12 Rozycki, Mr. Thomas, and Mr. Hyde.

13 At page 32 of its Interim Order, the Authority concluded that "both ILEC and
14 CLEC customers will receive benefit from the Operational Support Systems, all carriers
15 should bear a portion of the costs in recurring prices. Based on this observation, the
16 Authority then found that (1) "costs associated with OSS should be recovered from all
17 carriers (ILECs, CLECs)," and (2) "all OSS costs should be removed from the
18 nonrecurring rates." If this decision is made permanent, the outstanding issues between
19 the parties to this arbitration will be resolved. Because the Authority's conclusions have
20 not been finalized, however, I will address the ITC^DeltaCom's OSS proposal below in
21 my testimony.

1 Q. WHAT ARE THE CRITERIA THAT THE AUTHORITY SHOULD CONSIDER
2 WHEN EVALUATING THE PARTIES' POSITIONS ON THIS ISSUE?

3 A. Nonrecurring costs for OSS are based on two different categories of activities. The first
4 category includes expenses associated with *using* OSS to execute an order for a network
5 element or for interconnection. Proper estimation of the relevant, i.e. forward-looking
6 costs of these ongoing transactions (which, while ongoing, are nonrecurring for any given
7 order) is critical. The second (although as I will describe below, inappropriate) category
8 of NRCs associated with OSS are the one-time costs required to *establish*, initially, the
9 systems that permit automated ordering, provisioning, and maintenance of UNEs and
10 interconnection required by the 1996 Act. The conceptual issues presented by these two
11 categories of NRCs are substantially different.

12 Q. WHAT ARE THE ECONOMIC ISSUES ASSOCIATED WITH THE ONGOING
13 COSTS OF OSS?

14 A. With respect to the NRCs associated with the ongoing use of OSS systems to obtain (or
15 modify) UNEs and interconnection, two observations are critical. First, NRCs must be
16 calculated on the basis of the forward-looking costs associated with fully implemented,
17 electronic flow-through systems, *that are functioning properly*. The costs associated with
18 interim, manual systems – or with electronic systems that are not working properly or not
19 providing the full functionality required to provide service to the end-use customer that is
20 comparable to the service it receives from BellSouth – are not relevant.

1 Second, it is important for the Authority to remain mindful that excessive or
2 unnecessary NRCs inherently constitute barriers to competition. They come into play at a
3 critical competitive decision point, i.e., when a customer first investigates the possibility of
4 switching local carriers or otherwise modifying existing services. Because NRCs can
5 work against the otherwise free exercise of consumer choice, it is critical that they fully
6 reflect efficient costs and be developed and applied in a non-discriminatory manner.

7 In evaluating BellSouth's proposals, the Authority should ensure that its NRCs for
8 OSS are based upon the same TELRIC principles that have been adopted by the FCC for
9 UNE prices. The consumer benefits of establishing TELRIC-based recurring costs for
10 UNEs and for interconnection will be significantly diminished – if not eliminated -- if the
11 NRCs that must be paid to obtain them are not also grounded in these fundamental cost
12 principles. Specifically,

- 13 • Cost-based rates for NRCs should comply with the FCC's Orders requiring
14 electronic interfaces to the OSS for ordering, billing, provisioning and maintenance
15 (such systems were to be made available by January 1, 1997).
- 16 • NRC studies should be based on the cost to provide network elements
17 using the most efficient technology currently available.
- 18 • NRCs should reflect systems that are consistent with the Total Network
19 Management ("TNM") guidelines that have been issued by Bellcore.

20 The principle flaw in most ILEC NRC studies is that these studies reflect existing
21 OSS that were designed in a monopoly market. Costs associated with BellSouth's
22 *existing* systems, however, are not relevant to determining the cost to provision network

1 elements in the environment envisioned by the 1996 Act. If BellSouth – or any ILEC – is
2 to be fully compensated for *any* cost it incurs, regardless of how inefficiently such a cost is
3 incurred or how much of a disadvantage it creates for a competitor, then there is no
4 incentive created for BellSouth to provide the OSS capabilities efficiently and in a non-
5 discriminatory manner. In a competitive market, providers are forced by the marketplace
6 to be efficient and to provide superior service. If they do not, consumers will choose to
7 receive service from a competitor.

8 Q. WHY SHOULD THE AUTHORITY IMPOSE THIS STANDARD ON NRC
9 DEVELOPMENT?

10 A. By imposing this competitive standard on BellSouth's development of NRCs, the
11 Authority creates incentives consistent with those that would be experienced by BellSouth
12 if the market were competitive. In its *First Report and Order*, the FCC correctly
13 concluded that prompt implementation of efficient and inexpensive order processing and
14 interface systems is essential to the creation of a competitive local exchange market. For
15 this reason, the FCC set a specific deadline for achieving full mechanization:

16 In all cases, however, we conclude that in order to comply fully with Section
17 251(c)(3) an incumbent LEC must provide, upon request, nondiscriminatory access to
18 operations support systems functions for pre-ordering, ordering, provisioning,
19 maintenance and repair, and billing of unbundled network elements under section
20 251(c)(3) and resold services under section 251(c)(4). Incumbent LECs that currently do

1 not comply with this requirement of section 251(c)(3) must do so as expeditiously as
2 possible, but in any event no later than January 1, 1997.³

3 BellSouth has not yet satisfied the FCC Order requiring automated OSS – a fact
4 which is discussed in detail by ITC^DeltaCom witness Thomas Hyde. Nevertheless, the
5 NRCs that the Authority authorizes in this proceeding must reflect the costs of efficient,
6 functioning electronic flow-through processes, *even if they have not been fully*
7 *implemented.* ILECs such as BellSouth have tremendous incentives to delay the
8 implementation of such systems and to overstate their costs in order to raise the costs of
9 potential competitors.⁴

10 By establishing prices in this manner, the Authority will provide the required
11 motivation for BellSouth to implement these essential OSS that are fully functional and
12 which operate efficiently.

13 The fundamental intent of the 1996 Act is to *eliminate* barriers to entry in the local
14 market, while the inescapable effect of excessive or unnecessary NRCs is to *create* such
15 barriers. Because NRCs are imposed when change occurs – when a network element is
16 initially obtained, reconfigured, or modified to permit the CLEC to offer an innovative
17 service – they fundamentally act to protect the status quo. Because virtually all local
18 customers currently are served by ILECs, any charge tied to a decision to change
19 constitutes a barrier to the exercise of that choice. This in turn shields the ILEC from the

³ *First Report and Order*, CC Docket 96-98, ¶525.

⁴ This in turn causes CLEC costs to rise even further by preventing CLECs from achieving the economics of scope and scale enjoyed today by the ILECs.

1 competitive pressures that serve as the cornerstone of a market economy, and that the
2 1996 Act relies upon to create incentives for carriers to reduce rates and to innovate.

3 Q. WHY SHOULD THE COST TO DEVELOP THE NECESSARY OSS (WHAT YOU
4 REFERRED TO EARLIER AS “TRANSITION COSTS”) NOT BE INCLUDED IN
5 NRCS ASSOCIATED WITH OSS?

6 A. While the costs to *use* OSS may be legitimate non-recurring charges, the costs to *establish*
7 those systems are not. Every carrier must incur costs to allow the changes envisioned by
8 the 1996 Act to become a reality. The fact that BellSouth’s network monopoly provides it
9 the opportunity to impose its costs on CLECs does not mean that it should be entitled to
10 do so. There are a number of reasons why this should not be permitted.

11 Q. PLEASE EXPLAIN YOUR RATIONALE FOR THE DISTINCTION BETWEEN OSS
12 DEVELOPMENT AND OSS USE.

13 A. First, electronic gateways and the downstream OSS that allow competing carriers to have
14 real-time electronic access is a requirement of the 1996 Act, reflecting the public
15 telecommunications policy adopted by Congress. These transition costs are not
16 attributable to a particular carrier’s competitive entry into the local exchange market.
17 Instead, they derive from the 1996 Act’s requirement that local exchange markets should
18 be open to competition. Congress frequently enacts laws that increase costs for market
19 participants affected by those laws. Thus, there is nothing particularly unusual about the
20 OSS requirements imposed by the 1996 Act – it is only the monopoly position enjoyed by

1 BellSouth and other ILECs that creates the possibility that it could impose its costs of
2 compliance on its competitors (in addition to their own compliance costs).

3 Second, the new OSS implemented by BellSouth will benefit its own retail
4 customers. When it provides retail services, BellSouth is essentially a “purchaser” of
5 UNEs – in fact, it is the largest single purchaser of UNEs within its existing service
6 territory. Upgrading its OSS will improve the efficiency of its own operations and extend
7 the benefits of competition to all consumers, including existing and future BellSouth
8 customers.

9 Finally, BellSouth does not uniquely or disproportionately incur OSS costs
10 required to achieve the pro-competitive environment envisioned by the 1996 Act. For
11 every operating system that BellSouth installs to support local competition, each CLEC
12 must develop and install a corresponding system on its side of the gateway interface.
13 There is no reason to expect that BellSouth’s costs would be significantly higher than
14 CLEC participants in the market, particularly when one takes into account the economies
15 of scale that ILECs are able to achieve.

16 The equitable solution to the recovery of these transition costs is clear – each
17 carrier, including both ILECs and CLECs, must develop an effective and efficient OSS.
18 Each carrier should bear its costs of developing and implementing such a system. No
19 carrier should be permitted to use existing market power to impose its costs on another
20 carrier or carriers.

1 Q. DOES THE FACT THAT ILECS ARE REQUIRED BY THE 1996 ACT TO INCUR
2 THESE TRANSITION COSTS, WHILE CLECS HAVE NO SUCH LEGAL
3 REQUIREMENT, AFFECT YOUR OBSERVATIONS?

4 A. No. While CLECs may not have a legal requirement, as a practical matter they must
5 possess these systems. An argument in support of the recovery of BellSouth's OSS
6 development costs from competing carriers ignores structural changes that are likely to
7 result as the competitive environment contemplated by the 1996 Act becomes a reality; a
8 reality which will create significant opportunities for the emergence of full-service
9 providers, particularly ILECs.⁵

10 By including the conditional promise of interLATA authority, the 1996 Act places
11 significant pressure on long distance carriers, and other CLECs, to enter the local market
12 so that they are positioned to respond with full-service packages of their own.⁶

13 It is also important, as I noted above, to keep in mind that, when this happens,
14 ILECs will be entering a long distance market characterized by mature, state-of-the-art
15 OSS. This will substantially facilitate inexpensive entry using systems that the long
16 distance industry has paid for and implemented.⁷

⁵ Of course, if BellSouth or other ILECs are permitted to enjoy the substantial competitive advantage that would be created by managing to force CLECs to pay *both* its own OSS development and deployment costs *and* those incurred by the ILECs, the likelihood of any such competition emerging is diminished significantly.

⁶ Thus, the 1996 Act provides a compensating incentive for BellSouth to open its markets to competition, *i.e.*, in-region, inter-LATA entry.

⁷ At the time of divestiture, the nation's telecommunications infrastructure was not designed to support competitive long distance carriers. The necessary systems to provide "seamless" competition to consumers – including state-of-the-art OSS systems – have been designed and fully implemented. In short, the operational barriers to long distance competition are gone. These systems are available for use by BellSouth, and other ILECs, once they meet the

1 Q. IF THE AUTHORITY SHOULD CONCLUDE, DESPITE YOUR
2 RECOMMENDATION, THAT BELL SOUTH SHOULD BE PERMITTED TO
3 RECOVER SOME PORTION OF TRANSITION COSTS FROM CLECS, ARE THERE
4 PRINCIPLES THAT SHOULD GUIDE ITS DELIBERATIONS ON THIS ISSUE?

5 A. As stated above, I believe there are compelling reasons not to permit BellSouth (or other
6 ILECS) to recover their transition costs as part of NRCs associated with OSS. However,
7 if the Authority concludes that BellSouth should be permitted to recover some of these
8 costs from Tennessee's ratepayers, it should follow these principles in doing so:

- 9 • Whatever portion of these transition costs BellSouth is permitted to impose
10 should be recovered in a competitively-neutral and non-discriminatory manner,
11 which recognizes that BellSouth's customers also benefit from the local
12 competition and should, therefore, defray a *pro rata* share.
- 13 • CLECs should not pay BellSouth for upgrading systems which would
14 benefit its retail services.
- 15 • These costs should not be assessed as NRCs, but should be amortized over
16 the expected economic life of the OSS.

17 Q. WHAT EFFECT DOES THE REQUIREMENT FOR NON-DISCRIMINATORY
18 ACCESS TO OSS HAVE ON YOUR RECOMMENDATIONS?

requirements for receipt of authority to enter the interLATA market. Permitting ILECs to benefit from these systems, without paying for "transition costs," while forcing CLECs to pay ILECs' transition costs in the local exchange arena would place CLECs at a tremendous competitive disadvantage.

1 A. Both the 1996 Act and the FCC's regulations require that access to OSS be provided on a
2 non-discriminatory basis. In this context, *non-discriminatory* means that access to these
3 systems by CLECs is indistinguishable, both technically and economically, from the way
4 ILECs use these systems. The most straight-forward way to ensure this is to develop the
5 costs associated with this transition of OSS systems in a competitively neutral manner –
6 ensuring that each customer pays some share of the costs, regardless of which company
7 provides its local service. The only truly competitively neutral mechanism, of course, is
8 for each carrier to be fully responsible for its own OSS. If the Authority concludes that
9 some portion of BellSouth's OSS transition costs are to be paid for by CLECs, the most
10 competitively neutral mechanism would be a per customer charge that includes *all* retail
11 customers in the denominator of the calculation and which amortizes the costs over the
12 appropriate economic life of the assets.

13 **SECTION III: COLLOCATION RATES, TERMS, AND CONDITIONS**
14 **SHOULD REFLECT THE FORM OF COLLOCATION BEING UTILIZED**
15 **AND NOT CREATE ADDITIONAL BARRIERS TO ENTRY**

16 **Issue 6(d): What should be the appropriate recurring and non-recurring charges for**
17 **cageless and shared collocation in light of the recent FCC Advanced Services Order No.**
18 **FCC 99-48, issued March 31, 1999 in Docket No. CC 98-147?**

19 Q. IN ITS INTERIM ORDER IN DOCKET NO. 97-01262, THE AUTHORITY
20 ADDRESSED THE ISSUE OF THE APPLICABLE RATES FOR PHYSICAL
21 COLLOCATION. IS THE FORM OF COLLOCATION AT ISSUE IN THIS
22 PROCEEDING THE SAME AS THE ONE AT ISSUE IN DOCKET NO. 97-01262?

1 A. No. In the generic cost proceeding, the Authority was presented with cost information
2 related to the construction of walled enclosures for collocation. Pursuant to the FCC's
3 Advanced Wireline Services Order, ITC^DeltaCom will be utilizing "cageless collocation"
4 in BellSouth central offices in order to offer its services. As a result, it will be necessary
5 to establish an additional set of rates that will apply to this new arrangement.

6 Q. WHAT IS "CAGELESS COLLOCATION"?

7 A. A cageless collocation arrangement permits a CLEC, such as ITC^DeltaCom, to place
8 certain equipment in the BellSouth central office for the purpose of interconnecting with
9 the BellSouth network. ITC^DeltaCom owns the equipment and retains all responsibility
10 for its care and maintenance. In contrast to "caged" or "walled" collocation, however,
11 this equipment is not physically separated from BellSouth's network equipment by the
12 erection of physical barriers or the deployment of separate supporting facilities (such as
13 HVAC).

14 Q. HAS BELL SOUTH PRODUCED COST STUDY RESULTS UPON WHICH COST
15 BASED RATES FOR CAGELESS COLLOCATION CAN BE ESTABLISHED?

16 A. No.

17 Q. IN THE ABSENCE OF SUCH A COST STUDY, HOW CAN APPROPRIATE RATES
18 FOR CAGELESS COLLOCATION BE DETERMINED?

1 A. BellSouth's tariffed rates for virtual collocation (FCC Tariff No. 1, section 20), with
2 appropriate adjustment, should be adopted as interim rates subject to true-up. When
3 BellSouth produces the results of a cost study for cageless collocation the Authority can
4 adopt these results and set permanent rates.

5 The existing rates for virtual collocation can serve as a reasonable proxy for
6 physical cageless collocation rates because of the similarities between the two
7 arrangements. In a virtual collocation arrangement, the CLEC purchases the necessary
8 equipment from a vendor and sells it to the ILEC for a nominal price, the ILEC purchases
9 the equipment on the CLECs behalf, or the ILEC leases (for a nominal rate) the equipment
10 from the CLEC. Regardless of the acquisition scenario, the ILEC then places the
11 equipment into service (under its control) in its central office, providing interconnection
12 between the two networks. The "virtually collocated" equipment is not physically
13 separated by either cages or walls in a defined space, and does not require separate
14 support services (such as HVAC). Similarly, in a physical cageless collocation
15 arrangement BellSouth will place ITC^DeltaCom's equipment into service within its
16 central office, again not physically separate by cages or walls and without the requirement
17 of separate support systems. As a result, the costs imposed on BellSouth for the space
18 occupied by the ITC^DeltaCom equipment are directly comparable.

19 Q. YOU STATED THAT IT IS NECESSARY TO ADJUST THE EXISTING VIRTUAL
20 COLLOCATION RATES IN ORDER TO DEVELOP THE APPROPRIATE INTERIM

1 RATES FOR PHYSICAL CAGELESS COLLOCATION. WHY IS SUCH AN
2 ADJUSTMENT NECESSARY?

3 A. The difference in the control of the equipment – and the associated maintenance
4 responsibilities – directly affects the cost to BellSouth and creates the need for an
5 adjustment to the rates. In a virtual collocation arrangement, BellSouth owns the
6 equipment and incurs the expense of maintaining it. In contrast, in a physical cageless
7 collocation arrangement ITC^DeltaCom will own and maintain the equipment. As a
8 result, BellSouth will experience a cost savings equal to the maintenance expense.

9 The appropriate amount of the required adjustment can be ascertained directly
10 from cost information developed by BellSouth in the ordinary course of business. When
11 conducting its cost studies, BellSouth converts investments to annual cost through the
12 application of Annual Cost Factors (“ACFs”). A discrete and separately identified portion
13 of these ACFs represents the maintenance costs in question, specific to each class of
14 equipment (identified by separate USOA account codes). By zeroing out this maintenance
15 component in the applicable ACFs used in its virtual collocation cost study, BellSouth can
16 easily recalculate the relevant costs – and therefore interim rates – for physical cageless
17 collocation.

18 **Issue 4(a): Should BellSouth provide cageless collocation to ITC^DeltaCom 30 days after a**
19 **firm order is placed?**

20 Q. IS THERE AN ADDITIONAL ISSUE RELATED TO COLLOCATION TERMS AND
21 CONDITIONS THAT YOU WISH TO ADDRESS?

1 A. Yes. It relates to the provisioning interval for physical cageless collocation.
2 ITC^DeltaCom has requested that BellSouth commit to a 30-day turnaround time for such
3 a collocation arrangement. While such a provisioning interval is significantly shorter than
4 for walled or caged collocation, it is reasonable. In a cageless arrangement, BellSouth will
5 not need to determine if room exists within its central office for the construction of a
6 physically separated space, design the enclosure, or have it constructed. The provisioning
7 interval for cageless collocation should also be shorter than that for virtual collocation,
8 because of the lack of the administrative tasks associated with the exchange of ownership
9 of the equipment.

10 **SECTION IV: COST BASED RATES FOR UNES MUST BE**

11 **ESTABLISHED PURSUANT TO THE APPLICABLE LEGAL REQUIREMENTS**

12 **Issue 6b: What are the appropriate recurring and non-recurring rates and charges for:**

- 13 a) two-wire ADSL/HDSL compatible loops;
14 b) four-wire ADSL/HDSL compatible loops;
15 c) two-wire SL1 loops;
16 d) two-wire SL2 loops; or
17 e) two-wire SL2 loops Order Coordination for Specified Conversion Time?

18 Q. **WHAT RATES REMAIN AT ISSUE IN THIS ARBITRATION?**

19 A. To date, BellSouth and ITC^DeltaCom have failed to reach agreement on the rates
20 including, but not limited to, the following network elements: Unbundled loop, 2 wire and
21 4 wire, Service Level 2 (Nonrecurring and Recurring Rates); HDSL loop, 2 wire and 4
22 wire (Nonrecurring Rates); ADSL loop, 2 wire (Nonrecurring Rates).

23 Q. **WHY ARE THESE RATES AT ISSUE IN THIS ARBITRATION?**

1 A. In its recent decision, the United States Supreme Court ended the Eighth Circuit Court's
2 stay of the FCC's pricing rules as adopted in its August 8, 1996 Order in CC Docket No.
3 96-98. These rules implement the so-called TELRIC standard.

4 In its Interim Order, the Authority addressed the development of these rates. At
5 the time that evidence was produced by the parties in Docket No. 97-01262, however, the
6 FCC's pricing rules had been stayed. The application of these rules may impact the cost
7 of certain UNEs, and will certainly impact the cost and availability of combinations of
8 those UNEs, including the extended loops being requested by ITC^DeltaCom.

9 Because of the way that it is designed (the relevant characteristics of which are
10 fixed and cannot be changed by altering inputs), BellSouth's cost model as presented to
11 the Authority and used by BellSouth to develop recurring loop rates cannot be used to
12 produce results that comply with the FCC's TELRIC standard, and cannot determine the
13 relevant cost of combinations of UNEs, which BellSouth must now provide. I am
14 attempting to determine whether BellSouth's model used to develop nonrecurring costs
15 can be used to develop costs consistent with this standard. ITC^DeltaCom has recently
16 been provided with copies of the relevant studies, and I will supplement my testimony
17 when I have had the opportunity to complete my analysis.

18 SECTION V: OTHER ISSUES

19 Q. EARLIER IN YOUR TESTIMONY YOU REFERRED TO A NUMBER OF
20 ADDITIONAL IMPORTANT ISSUES THAT YOU HAVE BEEN ASKED TO
21 ADDRESS. WHAT ARE THOSE ISSUES?

1 A. These issues relate to (1) disconnect charges, (2) resolving reported line trouble on
2 unbundled loops, (3) transmission and routing of exchange access traffic, and (4) access to
3 the Regional Street Address Guide ("RSAG").

4 **Issue 6(c): Should BellSouth be permitted to charge ITC^DeltaCom a disconnection charge**
5 **when BellSouth does not incur any costs associated with such disconnection?**

6 Q. BELLSOUTH SEEKS TO ELIMINATE LANGUAGE IDENTIFYING
7 CIRCUMSTANCES IN WHICH ITC^DELTA COM WOULD NOT BE RESPONSIBLE
8 FOR DISCONNECT CHARGES. WHAT IS THE ISSUE IN DISPUTE?

9 A. BellSouth seeks to assess ITC^DeltaCom disconnect charges any time ITC^DeltaCom
10 loses a customer – even if no physical disconnection takes place. There are two issues
11 here: A question of timing, and a question of double counting of costs. I will discuss each
12 issue in turn.

13 First, when dealing with retail customers it is standard practice for a LEC to
14 charge for service disconnection at the time service is installed because of concern that the
15 customer would disappear without paying the disconnect charge. Wholesale customers
16 such as CLECs, however, have an ongoing relationship with BellSouth and as a result this
17 concern does not exist. It is clear, therefore, that -- at a minimum -- disconnect charges
18 should not be assessed to CLECs until the customer actually leaves the system.

19 Second, disconnect charges should not be assessed if a disconnect does not
20 actually occur. In many cases, a line is not disconnected even when a customer leaves the
21 premises. Instead, the line is maintained in "soft dial tone" mode pending the occupation

1 of the premises by another customer seeking telephone service. It is clearly not
2 appropriate to assess a nonrecurring charge, whose calculation is based on work times for
3 a physical disconnection, when no such physical disconnection takes place.

4 Even when a disconnect *does* take place, the nonrecurring charge for
5 disconnection may still not be applicable.⁸

6 If the disconnect is the result of a customer's decision to select *another* local
7 service provider – either the ILEC or another CLEC – the disconnect from the initial local
8 service provider and the connect to the new local service provider are a single activity.

9 Under such a circumstance, it would be an overcharge to assess *both* a connect charge and
10 a disconnect charge, because both would represent the same work activity. The language
11 ITC^DeltaCom seeks to incorporate into the agreement properly seeks to avoid this
12 double-counting of BellSouth's costs.

13 At page 35 of its Interim Order, the Authority addressed the issue of disconnect
14 costs. If the conclusions of the Authority are made final and the Authority clarifies its
15 language to prevent the double recovery of costs described above, the issue between the
16 parties will be resolved.

17 **Issue 2(c)(vi): Should each party be responsible for the repair charges for troubles caused**
18 **or originated outside of its network? If so, how should each party reimburse the other for**
19 **any additional costs incurred for isolating the trouble to the other's network?**

⁸ Only in unlikely combinations of circumstances would BellSouth face a situation in which a physical disconnect would not be associated with a reconnection of the circuit. As a result, incremental work activities for a disconnect – and the resulting costs – should prove to be rare.

1 Q. WHAT ARE THE DISAGREEMENTS CONCERNING REPORTED LINE
2 TROUBLES ON UNBUNDLED LOOPS?

3 A. In both paragraphs 2.2.7 and 2.2.8 (concerning reported line troubles on Level 1 and
4 Level 2 loops, respectively), the draft agreement provides that:

5 [i]f ITC/DeltaCom reports a trouble on SL1 [SL2] loops and no
6 trouble actually exists, BellSouth will charge ITC/DeltaCom for any
7 dispatching and testing (both inside and outside the CO) required
8 by BellSouth in order to confirm the loop's working status. The
9 application rate is in FCC No.1, Section 13. If a No Trouble Found
10 status is later proven to be a BellSouth trouble . . . BellSouth will
11 waive any assessed testing and dispatch charges.

12 ITC^DeltaCom seeks to add the following language, to which BellSouth objects:

13 BellSouth shall reimburse ITC^DeltaCom for any additional costs
14 associated with isolating the trouble to BellSouth's facilities and/or
15 equipment.

16 Clearly, the required language is necessary to put CLECs such as ITC^DeltaCom
17 on equal footing with BellSouth. Under the language to which the parties agree,
18 BellSouth is compensated for its costs of establishing that the line trouble is on the
19 CLEC's system. All ITC^DeltaCom seeks to achieve is parity – to be compensated for
20 expenses it incurs to establish that the trouble is on BellSouth's system.

21 It makes no sense *not* to impose parity on the parties. The language in the first
22 two sentences of these paragraphs obviously is designed to encourage ITC^DeltaCom to
23 test its own system before reporting a line trouble to BellSouth. If ITC^D erroneously
24 reports the trouble to BellSouth for correction, these sentences require ITC^D to
25 compensate BellSouth for having to conduct such tests in vain. By the same token,
26 however, if BellSouth fails to conduct its tests and erroneously reports the trouble to

1 ITC^D for correction, or conducts its tests, initially concludes that the problem lies on
2 ITC^D's end of the operation, but it is ultimately determined that BellSouth's initial
3 conclusion is in error – BellSouth should compensate ITC^D for *its* costs of isolating the
4 problem to BellSouth's system. Merely agreeing not to charge ITC^D for what turn out
5 to be inaccurate tests does not put ITC^D on the same footing as BellSouth. The third
6 sentence is required to create this parity. Failure to insist on mirror-image payments for
7 testing that is ultimately unwarranted would create incentives for BellSouth to artificially
8 inflate CLEC costs by forcing them to test each trouble twice – once initially, before
9 reporting it to BellSouth, and again after BellSouth advises that it could not locate the
10 trouble on its system.

11 **Issue 2(a)(j): Should BellSouth be required to provide a download of the Regional Street**
12 **Address Guide (RSAG)? If so, how?**

13 Q. DOES ITC^DELTA COM PROPOSE THAT BELL SOUTH BE REQUIRED TO
14 PROVIDE IT WITH A DOWNLOAD OF THE REGIONAL STREET ADDRESS
15 GUIDE (RSAG)?

16 A. In ¶¶4.9.4.3/4.9.4.4, Attachment 6, ITC^D proposes that BellSouth will transmit a subset
17 of the RSAG to ITC^D on a daily basis at no charge, which includes street addresses and
18 the associated serving switches, enabling ITC^D to map a customer address to a specific
19 serving switch.

1 Q. DOES THIS CONCLUDE YOUR PREFILED TESTIMONY?

2 A. Yes. Of course, I will address any additional issues raised in BellSouth's supplemental or
3 responsive testimony as allowed by the Authority. I also intend to supplement my
4 testimony as appropriate after review of BellSouth's cost studies and responses to
5 discovery.